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Washington Sets \$150 Billion Plan to Jolt Economy

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WASHINGTON -- Congress and the White House hammered out an economic stimulus package that would put \$150 billion into the hands of consumers and businesses while seeking to revive the market for large mortgages.

It was a rare display of compromise and speed in a city known recently for partisan gridlock. Both parties were responding to middle-class economic fears, as election-year nerves are frayed by a seesawing stock market, a wave of home foreclosures and a credit crunch. "I can't say that I'm totally pleased with the package, but I do know that it will help stimulate the economy," said House Speaker Nancy Pelosi.

Economists said the measures, coming as the risk of a downturn rises, could boost growth this year by between three-quarters of a percentage point and a full point.

One important provision temporarily raises the dollar limit on mortgages that can be bought or guaranteed by government-sponsored mortgage giants Fannie Mae and Freddie Mac. The current limit of \$417,000 would rise above \$600,000 and perhaps as high as \$730,000 in the most expensive areas, congressional leaders said.

The centerpiece of the package is \$100 billion in tax credits for an estimated 117 million families this spring. Most individuals who pay income taxes would get \$600; working couples would receive \$1,200. Workers who make at least \$3,000 but don't pay income taxes would get checks of \$300 to \$600. People in both groups would get \$300 credits for each of their children.

Top Democrats said they intend to send a bill to President Bush by Feb. 15. If that happens, rebate checks or electronic transfers would probably arrive between May and July.

Businesses would be able to deduct an additional 50% of the cost of certain investments in 2008. In addition, small businesses would be able to write off more expenses from their taxes: \$250,000, up from \$125,000.

Richard Seaman, the chief executive of Seaman Corp., a maker of industrial textiles used in everything from roofing to military tents, had planned to put off \$2 million in equipment purchases for as long as two years.

"But with this tax break, we'll probably move it forward to get within the time boundaries," he said. Mr. Seaman had lunch yesterday with four major customers and asked them about the prospect of tax breaks. "There was quite a bit of enthusiasm," he said.

Phased Out

The checks would be gradually phased out for wealthier taxpayers. Couples with income of more than \$174,000 would get nothing, unless they have children.

The Dow Jones Industrial Average climbed 108.44 points, or 0.9%, to 12378.61 after a late round of buying stirred by optimism about the stimulus plan.

In crafting the deal, leaders of both parties were forced to give ground. Democrats wanted new spending on food stamps and unemployment benefits, but didn't get it. Republicans held their noses and agreed to \$28 billion in credits for 35 million families who don't pay income taxes. They also gave in to the cap that stops wealthier people from getting checks. Bush administration officials had earlier floated a plan to give \$800 rebates to all income-tax payers.

"Philosophically, as Republicans, all people who pay taxes ought to get tax relief," said House Minority Leader John Boehner of Ohio after the deal came together.

Ms. Pelosi said that despite her misgivings, the plan "is about putting money in the hands of America's working families." Mr. Boehner added, "We wanted to get money back to middle-class families as efficiently as possible."

The deal's speed, negotiated during a week of meetings between House leaders and Treasury Secretary Henry Paulson, is testimony to that concern. In the rush, some details got muddled. Ms. Pelosi's office at one point yesterday issued a fact sheet that gave the new Fannie and Freddie limit as \$625,500, as did Mr. Boehner's office. Other congressional leaders put the figure at around \$730,000; Ms. Pelosi's office later issued a correction.

The House plans to vote on the bill in early February, bypassing the usual committees.

Senators, who weren't heavily involved in the talks, now get a chance to weigh in. The Senate's tax panel chairman, Democrat Max Baucus of Montana, said he would take up a stimulus bill next week. Some Democratic senators are hoping to modify the agreement by adding unemployment benefits, food stamps and road repair. And the nation's governors are still calling for \$12 billion in aid for Medicaid and other programs.

Democratic leaders said the debate might be freewheeling but they would aim for a speedy conclusion. "We will move quickly...and we should not get bogged down in a lot of details," said Mr. Baucus.

The loudest complaints about the plan came largely from the left. "This is no time for Congress to throw in the towel," said AFL-CIO President John Sweeney in a written statement calling for the Senate to put unemployment benefits and food stamps back into the package. He said Congress should "get money into the hands of those who will spend it quickest and need it most."

The Internal Revenue Service expects to be able to begin mailing out checks and making electronic transfers by May, said Mr. Paulson. He told reporters the "lion's share" of payments would be completed within the following 10 weeks.

Doug Elmendorf, an economist at the Brookings Institution, estimated the package would add roughly 0.7 percentage points to growth in gross domestic product for 2008, with the effects

concentrated in the second half of the year. In addition, Mr. Elmendorf said, business and consumer confidence should get a boost from the assurance that help is on the way.

However, he warned, "one should not expect that everything will be rosy because this deal has been worked out."

A small but notable contingent of economists, largely on the right, questioned whether the stimulus was needed at all. Harvard economist N. Gregory Mankiw, a former Bush adviser, argued that the rescue package is overkill at a time when unemployment measures 5%, a low rate historically.

"Monetary policy is the first line of defense against recession, and I think it's doing its job right," Mr. Mankiw said, referring to the Federal Reserve's series of interest-rate cuts since last August. "I'm not convinced yet that fiscal policy is necessary at this point."

Until the plan is final, it is difficult for congressional budget experts to estimate the impact it will have on the federal deficit. But Senate Budget Committee Democrats said Wednesday that a \$140 billion stimulus package would add about \$100 billion to the deficit in fiscal year 2008, which began in October, bringing the total budget shortfall for the year to about \$350 billion.

Harvard economist Martin Feldstein, a former adviser to President Reagan, told the Senate Finance Committee it would be better to make a stimulus package contingent on signs of impending recession, such as repeated increases in unemployment. But he said the economy's deterioration is "enough to make an immediate fiscal stimulus better than doing nothing at this time."

Only Go So Far

Some company chiefs warned a stimulus could only go so far in propping up the economy. "Our particular business is tied to the auto industry, and if cars aren't selling [the stimulus is] probably not going to get us to go out and buy a new machine," said Kim W. Beck, chief executive of Automatic Feed Co., a Napoleon, Ohio, maker of presses used to stamp out car bumpers and other metal pieces.

Mr. Beck said he still has no plans to buy any machines this year. If he was on the fence about a purchase, "then you might be influenced," he said.

Dean Garritson shares that conservative view. As president of Green River Cabins -- a Campobello, S.C., maker of log homes used mostly as vacation getaways -- he is planning to buy some equipment this year, including a new overhead crane for his factory. But a much bigger expansion plan is staying on the shelf. His business is strong, he said, but mainly because three regional competitors have gone out of business in the wake of the housing bust.

"I would never go off and do dumb stuff like dramatically increase capacity of my plant when I don't have the orders," he said.